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SUBJECT: Fiscal Transparency in Ecuador

REF: STATE 1923

¶1. (U) Post provides the following information on the transparency of the government of Ecuador's budget, keyed to questions in reftel.

¶2. (SBU) Is the central government expected to receive funding under the FY 2010 SFOAA?

Yes. In 2009, overall USG assistance to Ecuador amounted to over \$40 million. Approximately half of this assistance went to support projects with GoE entities (particularly law enforcement and military, and also including support for refugees and economic development). A significant percentage - also roughly 50% -- of USG assistance in 2009 supported non-GoE programs (e.g., USAID funds support civil society, the private sector and local governments). Many if not most of the USG assistance programs in Ecuador will continue in 2010.

¶3. (SBU) Is the host country's annual national budget publicly available?

Ecuador's new Constitution requires that the central government submit the budget proposal for the next year to Ecuador's National Assembly 60 days before the end of the current calendar year. The National Assembly then has 30 days to review and vote on the budget proposal. The budget enters into force immediately upon approval of the National Assembly.

Ecuador's Constitution provides that the information related to the formulation, approval and execution of the Ecuador's annual national budget must be public. The approved budgets are available in print and on the Ministry of Finance website:
http://www.mef.gov.ec/PRESUPUESTO_2010-2013/P_RESUPUESTO%202009-2013.htm.

¶4. (SBU) Are incomes and expenditures included in the publicly-available budget?

Yes. All revenue and expenditure figures are included in the publicly available budget. Revenues and expenditure figures are disclosed in detail by sector (e.g., defense, education), entity (e.g., Ministries and other public institutions), and state function (e.g., executive, judicial, legislative). The budget also provides details on provincial expenditures.

15. (SBU) What is post's assessment of the extent to which the publicly-available budget accurately reflects actual government incomes and expenditures?

Local economic analysts have criticized the assumptions used to formulate the government's 2010 budget. Some of these assumptions, for example, real GDP growth of almost 7% in 2010, are considered overly optimistic. These assumptions impact the estimates for both revenues and expenditures. If growth levels are more in line with private estimates (1.5-2.5%), the probability is that tax collection receipts will come in significantly lower than the budget estimates, and this will also affect how much the GoE will be able to spend in 2010. Nonetheless, the GoE's assumptions and figures are available for public review and discussion.

In addition, the GoE delayed submitting the 2009 budget to the National Assembly for approval, which made it difficult to assess

whether the government budgets for both 2009 and 2010 were credible and complete. No public report about the budget execution in 2009 has been disclosed yet. This issue is discussed in greater detail in para 6 below.

16. (SBU) Have there been any events since the 2009 review that may have affected fiscal transparency (e.g., a coup)?

Ecuador was not reviewed in 2009. The GoE delayed submitting the budget proposal for 2009 to the National Assembly until November 6, 2009. The GoE's justification for the delay was that President Correa was inaugurated for his second term on August 10, 2009, and Ecuador's new Constitution, approved September 2008, established that a new administration must submit a new budget to the National Assembly (itself inaugurated July 31, 2009) during its first ninety days in office.

The budget proposal for 2010 was submitted almost simultaneously with the 2009 budget (in early November 2009), which was well within the constitutionally established timeframe.

17. (SBU) Since last year's review, what efforts has the host government undertaken to improve fiscal transparency? What progress has been made, pursuant to the 2009 demarches on the subject (reftels)?

Senior Ministry of Finance officials told econoffs in December 2009 that the Finance Ministry was undertaking several projects aimed at improving the formulation, execution, and ex-post evaluation of central government budgets. At the GoE's request, a PEFA (Public Expenditure and Financial Accountability) exercise is being conducted by a group of foreign consultants. These consultants are applying the PEFA methodology developed by the World Bank, International Monetary Fund, and the European Commission. The Ministry of Finance plans to disclose publicly the results of this evaluation. (The PEFA website indicates that an evaluation has commenced and a draft report is expected to be available during

2010.)
HODGES